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UNCLAS SECTION 01 OF 02 TUNIS 001484

SIPDIS

STATE FOR EB, NEA/PI (FRANCESKI), AND NEA/MAG (LAWRENCE)
COMMERCE FOR CLDP (MARC TEJTEL), ITA/MAC/ONE (DAVID ROTH),
AND ADVOCACY CENTER (CHRIS JAMES)
CASABLANCA FOR FCS (GAIL DEL ROSAL)
STATE PLEASE PASS USTR (DOUG BELL)

E.O. 12958: N/A

TAGS: **ECON ETRD EFIN EAGR TS ENV**

SUBJECT: TUNISIA ECONOMIC HIGHLIGHTS: JULY 7, 2005

REF: 04 TUNIS 2422

Minister of Commerce at MEPI Small Grant Conference on Free
Trade with U.S.

¶1. (U) During the Tunisian American Chamber of Commerce's (TACC) recent conference on Free Trade, June 29-30, Tunisian Minister of Commerce Mondher Zenaidi, said that the GOT will continue integration with the world economy to support Tunisia's socio-economic development. Zenaidi noted that an FTA with the U.S. would serve national objectives by supporting growth, increasing investment as a percentage of GDP, and helping create a targeted 80,000 new jobs annually (with 50 percent for university graduates) and 70,000 companies over the next five years. Zenaidi cautioned, however, that agriculture and some service sectors are particularly "sensitive" and are not immediately ready for liberalization. Zenaidi also suggested that an FTA with the U.S. should be accompanied by financial assistance and that further steps would require further analysis through impact studies and dialogue with the private sector and civil society.

¶2. (U) Post Comment: Although an U.S. FTA may be some years away for Tunisia, we view the increased dialogue as productive for raising awareness of the benefits of greater economic/commercial engagement and for helping better understand where Tunisian sensitivities lie. The conference brought a number of excellent Arab-country stakeholders together, notably Jordanian and Moroccan representative, who could speak frankly about the FTA experience. The USG's Middle East Partnership Initiative (MEPI) sponsored TACC's conference through its Embassy Small Grants Program with funding of USD 25,000. We offer this Small Grant as a useful model for other posts in the region pursuing a similar agenda. End comment.

World Bank Approves Additional Economic Competitiveness Loan

¶3. (U) The World Bank (WB) has recently approved USD 150 Million loan for Tunisia under its Economic Competitiveness Adjustment Program. This latest financing, called ECAL IV, is intended a) to promote fiscal consolidation and strengthen the medium term fiscal framework; b) to improve Tunisia's private investment climate; and c) to reinforce the financial sector's capacity to finance growth by supporting the reduction of non-performing loans, strengthening the regulatory framework for bank intermediation, and fostering contractual savings, especially in the insurance sector. The ECAL IV loan will be apportioned as follows: 20 percent for law and justice and public administration (Central government administration); 55 percent for the finance sector; 25 percent for industrial and trade sectors.

¶4. (U) ECAL IV follows three similar, prior WB loans. The WB approved ECAL I (USD 75 Million) in 1996 and ECAL II (USD 159 Million) in 1999. The WB approved ECAL III (USD 283 Million) in 2001, but did not disburse USD 45 Million of that loan associated with the government's issuance of a second Global System for Mobile Communications (GSM wireless telecommunications) license because the WB did not receive documentation "to demonstrate that the GSM license was issued according to a competitive and transparent process."

Privatization Update

¶5. (U) Tunisia has privatized 193 companies since 1987, netting approximately USD 1.9 billion for government coffers. An estimated 74 percent of this amount constitutes foreign direct investment (FDI), most notably in tourism and commerce. In 2005, the GOT is selling off a 35 percent stake in the National Oil Distribution Company (SNDP), which ranks sixth nationwide in terms of turnover (USD 450 Million in 2003; net profit of USD 6.5 Million). A consortium managed by Spain's Santander Services and the Banque d'Affaires de Tunisie has been selected as an advisor to GOT on this transaction.

¶6. (U) Going forward, the IMF, for one, has requested Tunisia to accelerate its privatization efforts, especially

in "strategic sectors" like telecoms, finance, and transportation. Tunisie Telecom, the state telecommunications monopoly for all except mobile operations, is expected to place 35 percent of its equity up for public offering in 2005, with Banque de Affaires de Tunisie acting as advisor to the GOT on the sale. Estimates value the 35 percent share of Tunisie Telecom in the neighborhood of USD 1.6 Billion, which would nearly equal all combined privatizations in Tunisia since 1987. Last year's attempted financial sector privatization of Banque de Sud, however, did not succeed due to a lack of sufficient bidders (reftel). Recent reports, however, indicate that the Banque de Sud's privatization will be reattempted in 2005 or 2006 as its data room has been reopened for review and the GOT has specifically requested the Banque Internationale Arabe de Tunisie to actively consider a submission.

HUDSON